

## **INFORMATION BULLETIN #19**

### **INCOME TAX**

**JANUARY 2003**

**(replaces bulletin #19 dated July 1992)**

**DISCLAIMER:** Informational bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules and court decisions. Any information that is not consistent with the law, regulations or court decisions is not binding on either the Department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

**SUBJECT:** Government Obligations

**REFERENCES:** IC 6-3-1-3.5

I. For purposes of the Adjusted Gross Income Tax Act, obligations issued by the following organizations are considered direct United States Government obligations specifically exempted from state income taxation by federal law. Although not all inclusive, the Indiana Department of Revenue recognizes the following list of United States obligations, and is correct as of the date of issuance of this bulletin. For obligations not listed below refer to 31 U.S.C. 3124(a) for further guidance.

1. Banks for Cooperatives (12 U.S.C. Section 2134)
2. Central Banks for Cooperatives (12 U.S.C. Section 2134)

3. Commodity Credit Corporation (15 U.S.C. Section 714)
4. District of Columbia
5. Export-Import Banks of the United States (12 U.S.C. Section 635(b))
6. Farm Credit Banks (12 U.S.C. Section 2023)
7. Farmers Home Corporation
8. Federal Deposit Insurance Corporation (12 U.S.C. Section 1825)
9. Federal Farm Loan Corporation
10. Federal Financing Banks (12 U.S.C. Section 2290(b))
11. Federal Home Loan Banks (notes and debentures 12 U.S.C. Section 1433)
12. Federal Housing Administration
13. Federal Intermediate Credit Banks (12 U.S.C. Section 2204)
14. Federal Intermediate Credit Corporation (12 U.S.C. Section 2204)
15. Federal Land Banks Association (12 U.S.C. Section 931, Repealed. Pub. L. 92-181, Title V, Section 5.26(a) Dec. 10, 1971, 85 Stat. 624)
16. Federal Land Banks (12 U.S.C. Section 931, Repealed. Pub. L. 92-181, Title V, Section 5.26(a) Dec. 10, 1971, 85 Stat. 624)
17. Federal Savings and Loan Insurance Corporation (12 U.S.C. Section 1725(e))
18. Home Owner's Loan Corporation (12 U.S.C. Section 1463 Repealed. Pub. L. 89-554, Section 8(a), Sept. 6, 1966, 80 Stat. 648)
19. Joint Stock Land Banks (farm loan bonds and mortgages (12 U.S.C. Section 931, Repealed. Pub. L. 92-181, Title V, Section 5.26(a) Dec. 10, 1971, 85 Stat. 624)
20. Maritime Administration (Merchant Marine Bonds)
21. Production Credit Association (12 U.S.C. Section 2077)
22. Student Loan Marketing Association (20 U.S.C. Section 1087-2)
23. Series E, F, G, ~ H Bonds (26 U.S.C. Section 1272(a)(2)(B))
24. Small Business Administration
25. Tennessee Valley Authority (bonds only) (16 U.S.C. Section 831(n)-4 (d))
26. U.S. Government Bonds (31 U.S.C. Section 3124)
27. U.S. Government Certificates (31 U.S.C. Section 3124)
28. U.S. Government Notes (31 U.S.C. Section 3124)
29. U.S. Housing Authority
30. U.S. Treasury Bills (12 U.S.C. Section 221)

31. U.S. Maritime Commission
32. U.S. Possessions - obligations of Puerto Rico (48 U.S.C. Section 745), Virgin Islands (48 U.S.C. Section 1574 (b)(ii)(A)), Guam (48 U.S.C. Section 1423a) etc.
33. U.S. Postal Service (bonds) (39 U.S.C. Section 2005(d)(4))

The proportionate share of dividends or interest received from a Mutual Fund, Money Market Fund, Regulated Investment Trust or other investment fund derived from investments in **direct** U.S. government obligations will be allowed as a deduction in the computation of Indiana adjusted gross income tax. This deduction will be allowed to the extent such income is included in Indiana adjusted gross income. (For purposes of this deduction, earnings from investing in repurchase agreements are not considered to be derived from **direct** obligations of the U.S. government.)

The following sources of obligations are **not** considered United States obligations:

1. Building and Loan Associations
2. District of Columbia Armory Board
3. FSLIC secondary reserve prepayments
4. Farmer's Home Administration
5. Federal or State Savings and Loan Associations
6. Federal Home Loan Mortgage Corporation participation certificates in mortgage pools
7. Federal Home Loan Time Deposits
8. Federal National Mortgage Association (including dividends from FNMA stock)
9. GI Loans
10. Government National Mortgage Association (including participation certificates)
11. Inter-American Development Bank
12. International Bank for Reconstruction and Development (World Bank obligations)
13. Obligations issued under the New Commodities Act (Interstate and development bonds)
14. Panama Canal Bonds
15. Participating loans in the Federal Reserve System for member banks (Federal funds)

16. Philippine Bonds
17. Reconstruction Finance Corporation
18. Student Loans
19. U.S. Postal Service certificates and savings deposits
20. Repurchase Agreements

Also, interest or dividends received in the following instances is **not exempt** for **adjusted gross income** tax purposes:

- a) Debentures issued to mortgage or mortgages foreclosed under the provisions of the National Housing Act.
- b) Interest bearing certificates issued in lieu of tax exempt securities, such income losing its identity when merged with other funds
- c) Promissory notes of a federal instrumentality
- d) Refunds of Federal income tax
- e) Earnings from repurchase agreements

## **II. Obligations of the State of Indiana**

Any direct obligation of a state or a political subdivision of a state is not taxable for purposes of the Adjusted Gross Income Tax Act.

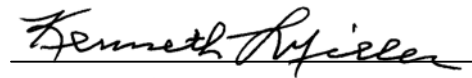
## **III. The Effect of Government Obligations on Indiana Adjusted Gross Income Tax**

All interest reported for federal tax purposes must be reported for Indiana adjusted gross income tax purposes. However, in determining taxable interest income for Indiana adjusted gross income tax purposes, a deduction may be taken for interest received on direct obligations of the Federal government or its agencies, as required under 31 U.S.C. Section 3124. The exemption for Government obligations is not a total exclusion, and may be limited by charging the obligations and interest their fair share of related expenses. However, the deductions generated by the expenses are limited to the amount of income generated by the obligation.

**NOTE:** Although municipal bond interest (including interest on public housing bonds) and bond interest from United States

Government obligations are excludable, the gain derived from the sale of tax-exempt municipal bonds and United States Government obligations held as investments is not exempt. The gain to be reported for Indiana tax purposes is the gain reported for Federal income tax purposes. Losses sustained are deductible, subject to capital loss limitations.

You may contact the Compliance Division for a determination of the exempt (or nonexempt) status of any governmental obligation.

A handwritten signature in black ink, reading "Kenneth L. Miller", written over a horizontal line.

Kenneth L. Miller  
Commissioner